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Report Highlights:

FAS/Canberra's sugar cane production estimate for Australia is revised down for MY 2020/21 to 31 MMT, from 32 MMT previously, as dry conditions had a greater impact than first considered on production volumes. In addition to lower-than-expected sugar cane production, sugar content of the cane this season is down due to a mild winter. This has resulted in a downward revision of sugar production for MY 2020/21 to 4.3 MMT. If realized this would be nearly the same as MY 2019/20. Australia's sugar exports are also revised lower to 3.4 MMT in MY 2020/21, down from 3.6 MMT in MY 2019/20.

Executive Summary

FAS/Canberra's sugar cane production estimate for Australia is revised down for MY 2020/21 to 31 MMT, from 32 MMT previously, as dry conditions had a greater impact than first considered on production volumes. In addition to lower-than-expected sugar cane production, sugar content of the cane this season is down due to a mild winter. This has resulted in a downward revision of sugar production for MY 2020/21 to 4.3 MMT. If realized this would be nearly the same as MY 2019/20. Australia's sugar exports are also revised lower to 3.4 MMT in MY 2020/21, down from 3.6 MMT in MY 2019/20.

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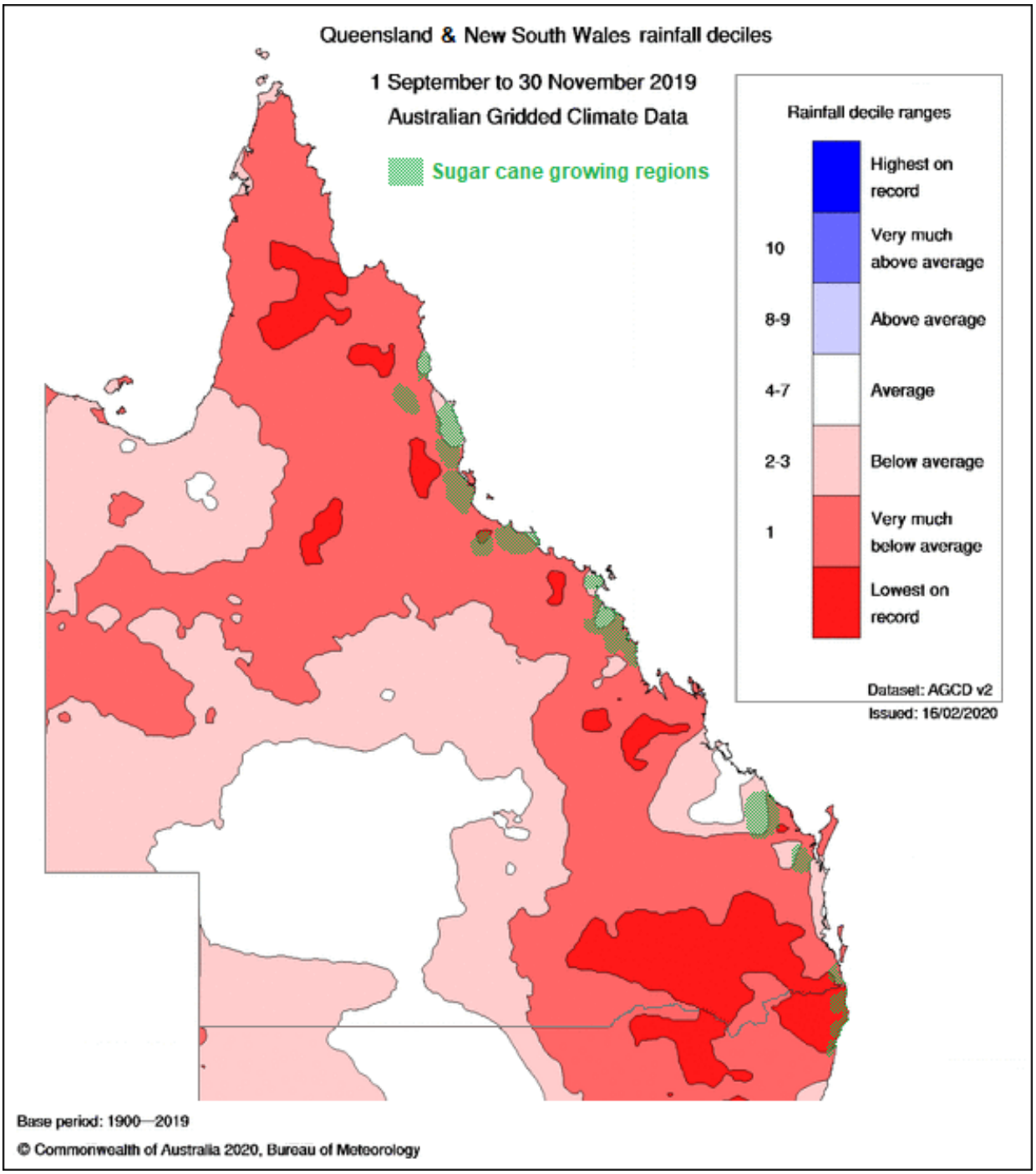
Production

The FAS/Canberra estimate for sugar cane production in marketing year (MY) 2020/21 is revised down slightly to 31 million metric tons (MMT), from 32 MMT previously. If realized MY 2020/21 production would be only slightly (three percent) above last year's production. This new estimate for MY 2020/21 is in line with the Australian Sugar Millers Association (ASMA) revised estimate of 30.91 MMT as at mid-September 2020, which is just over half-way through the crushing season.

The downward revised estimate for MY 2020/21 is due to a dry period from September to November 2019 (see figure 1), during the early production phase of this crop, having a greater impact than first estimated. Contributing to the sugar cane production estimate being lowered is that sugar cane production regions in Queensland have had average to below-average rainfall in the nine months from December 2019 to August 2020 (see figure 2). Meanwhile, the northern New South Wales production region during the same period has had average to above-average rainfall, although this region represents only around six percent of national sugar cane production.

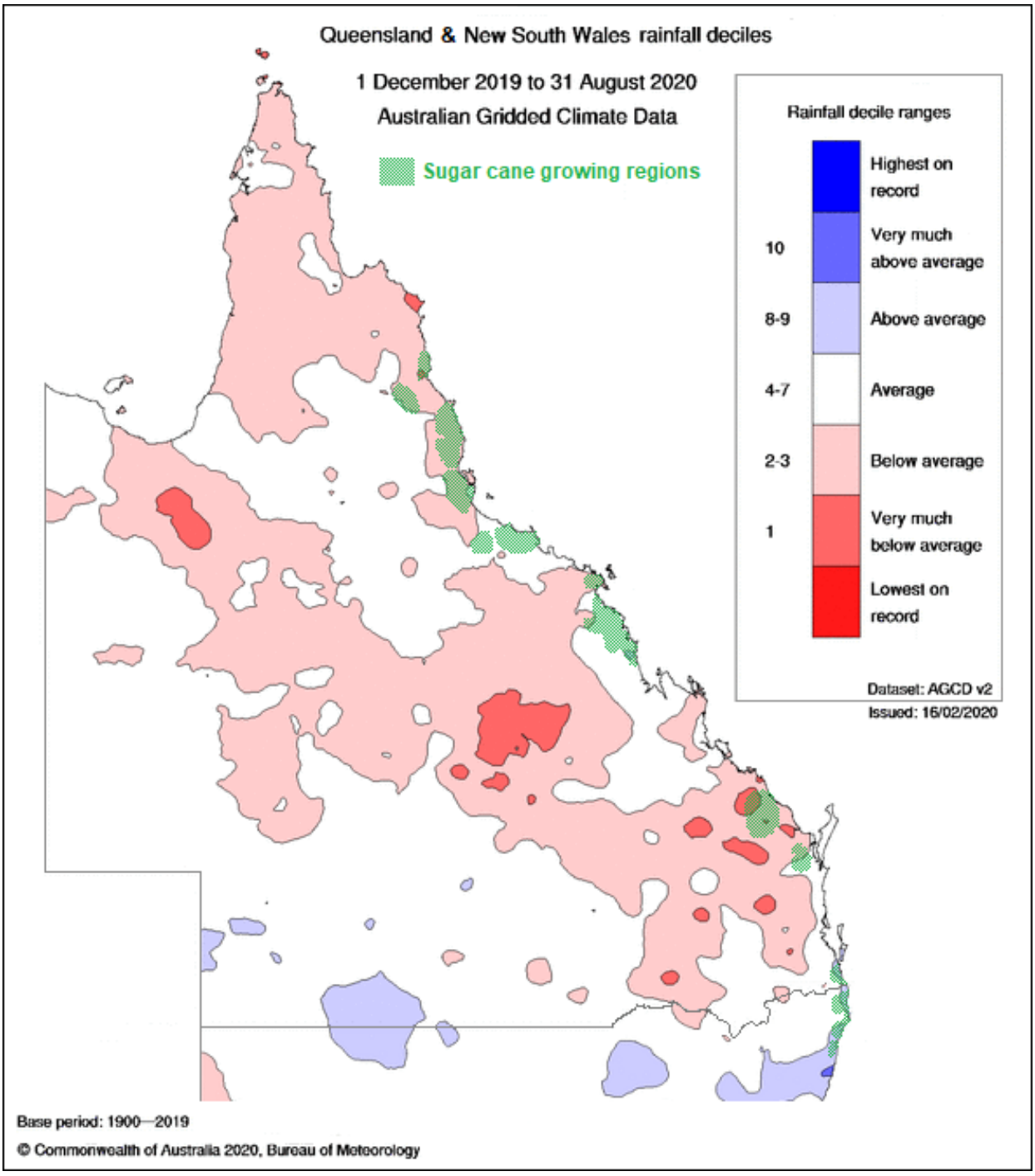
Sugar mills in Australia have relatively sophisticated methods of forecasting sugar cane crop yields that are done prior to harvest, which typically commences in June and ends in early December, for the scheduling of their harvest programs. These forecasts are updated as the harvest season progresses, taking into account actual paddock by paddock results year to date and prevailing seasonal conditions. The ASMA estimates are considered relatively accurate from this point of the harvest season, heading into warmer spring temperatures and still in the tropical dry season. Rainfall events are less likely to be major disruptors to the harvest but critical breakdowns at sugar mills remain a risk, which has in the past resulted in some standover sugar cane being left in the paddock and harvested the following season.

Figure 1 – Rainfall September to November 2019



Source: Bureau of Meteorology, FAS/Canberra

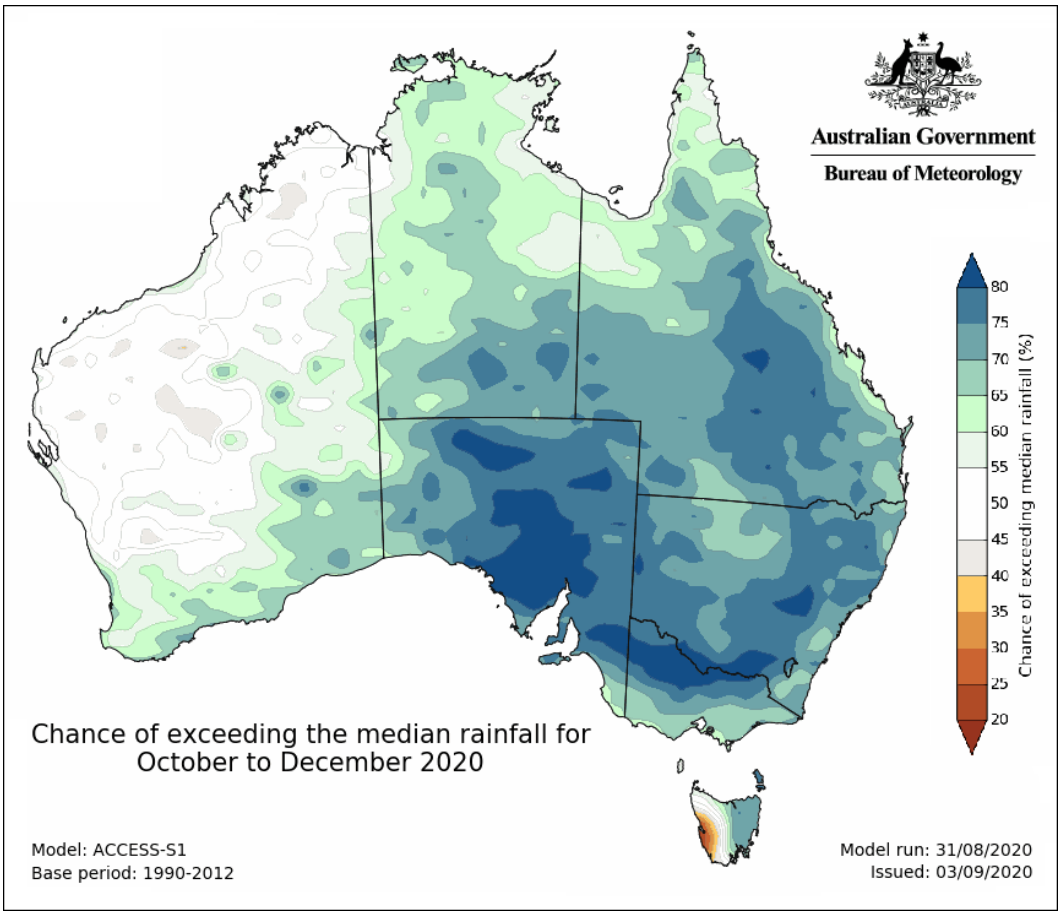
Figure 2 – Rainfall December 2019 to August 2020



Source: Bureau of Meteorology, FAS/Canberra

The Bureau of Meteorology forecasts a higher than average chance of achieving above-average rainfall across the eastern states of Australia for the October to December period (see figure 3). This may contribute to a small upside in yield of the late harvested sugar cane for MY 2020/21. However, if the rain forecast materializes this will have a greater positive impact on MY 2021/22 sugar cane production.

Figure 3 – Chance of Exceeding Median Rainfall in October to December 2020

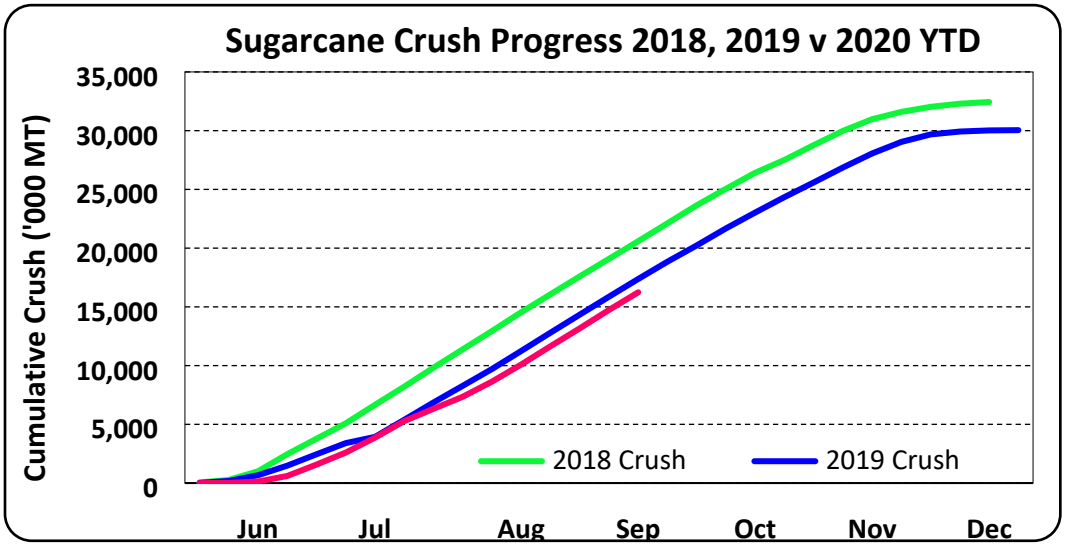


Source: Bureau of Meteorology

As at mid-September 2020 there was a total of 16.24 MMT of the MY 2020/21 sugar cane harvest crushed (see figure 4). This is behind the same period in the previous year at 17.38 MMT, despite that year having a smaller 30-MMT-crop. During, MY 2018/19, at the same stage 20.59 MMT had been crushed from a significant larger 32.5-MMT-crop.

Although there are many other factors such as mill breakdowns and seasonal variations in foreign matter in the sugar cane which affects the rate of processing, the slower rate of harvest this season is primarily caused by a wet period in June 2020 which delayed the start of harvest in most regions. Compounding this was a further wet period in late July to early August 2020 in some regions which caused a further significant delay in harvest. However, since the end of August mills have been running at near full capacity.

Figure 4 – Cumulative Sugar Cane Crush



Source: Australian Sugar Milling Council

Industry Issues Impacting on Production

A significant development in the industry announced in early August 2020 is the sale of 5,409 hectares (ha) of land and 8,060 million liters of water entitlements used for sugar production, by MSF Sugar in the Maryborough region to Rural Funds Management (RFM) group. Settlement of the sale is expected in October 2020. RFM purchased the land and water for the purpose of expanding their macadamia nut production in the region.

Industry analysts report that sugar cane production from the 5,409 ha represents around one-third of the MSF mill intake resulting in industry questioning the medium-term viability of the sugar mill. Sugar cane producers have a 3-year rolling supply agreement with MSF who are yet to make any announcement regarding their plans for the future of the mill.

RFM have indicated that they plan to remove 200 ha of sugar cane production in 2020 and 2021 for macadamia orchard development. This area, although significant, will not have a major impact on the MSF mill in the short term.

Sugar Cane for Centrifugal	2018/2019		2019/2020		2020/2021	
Market Year Begins	Jul 2018		Jul 2019		Jul 2021	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	0	0	0	0	0	0
Area Harvested (1000 HA)	380	380	364	364	370	370
Production (1000 MT)	32500	32500	30000	30000	32000	31000
Total Supply (1000 MT)	32500	32500	30000	30000	32000	31000
Utilization for Sugar (1000 MT)	32500	32500	30000	30000	32000	31000
Utilizatn for Alcohol (1000 MT)	0	0	0	0	0	0
Total Utilization (1000 MT)	32500	32500	30000	30000	32000	31000
(1000 HA) ,(1000 MT)						

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Production

Estimated sugar production for MY 2020/21 has also been revised down to 4.3 MMT, from the previous forecast of 4.5 MMT. If realized this would be nearly identical to the MY 2019/20 sugar production (4.285 MMT). This downward revision is caused by the downward revision of the sugar cane production estimate as outlined earlier, and also a decline in the sugar content of the sugar cane. As at mid-September 2020 the cumulative average sugar content of the sugar cane was at 13.17 Commercial Cane Sugar (CCS), a standard measure used by millers, and 13.49 CCS at the same time last season (see table 1). These are both significantly lower than the result for the same time in MY 2018/19 at 13.86 CCS, although the end of year CCS result was the highest seen in many years.

Although there are a range of factors that influence the sugar content of sugar cane, a key factor is that frosts in the winter period encourage higher sugar production in sugar cane plants. The winter period in most sugar cane growing regions in 2020 has been mild with reduced frost events compared to the prior year, which according to industry sources has contributed to the lower sugar content of sugar cane to mid-September 2020.

Table 1 – Weekly Cumulative Sugar Content Trends

MY 2018/19		MY 2019/20		MY 2020/21	
Week Ending	**Cumulative CCS**	**Week Ending**	**Cumulative CCS**	**Week Ending**	**Cumulative CCS**
03-Jun-2018	10.59	02-Jun-2019	12.49		
10-Jun-2018	11.07	09-Jun-2019	11.98	07-Jun-2020	12.28
17-Jun-2018	11.88	16-Jun-2019	12.20	14-Jun-2020	12.07
25-Jun-2018	12.24	23-Jun-2019	12.33	21-Jun-2020	11.79
01-Jul-2018	12.43	30-Jun-2019	12.48	28-Jun-2020	11.71
08-Jul-2018	12.55	07-Jul-2019	12.53	05-Jul-2020	11.97
15-Jul-2018	12.72	14-Jul-2019	12.56	12-Jul-2020	12.08
22-Jul-2018	12.87	21-Jul-2019	12.65	19-Jul-2020	12.28
29-Jul-2018	13.02	28-Jul-2019	12.75	26-Jul-2020	12.35
05-Aug-2018	13.15	04-Aug-2019	12.86	02-Aug-2020	12.42
12-Aug-2018	13.29	11-Aug-2019	12.97	09-Aug-2020	12.53
19-Aug-2018	13.42	18-Aug-2019	13.07	16-Aug-2020	12.65
26-Aug-2018	13.55	25-Aug-2019	13.19	23-Aug-2020	12.79
02-Sep-2018	13.66	01-Sep-2019	13.29	30-Aug-2020	12.94
09-Sep-2018	13.76	08-Sep-2019	13.39	06-Sep-2020	13.06
16-Sep-2018	13.86	15-Sep-2019	13.49	13-Sep-2020	13.17

Source: Australian Sugar Millers Association

Note: CCS = Commercial Cane Sugar (a measure of sugar content of sugar cane used by millers)

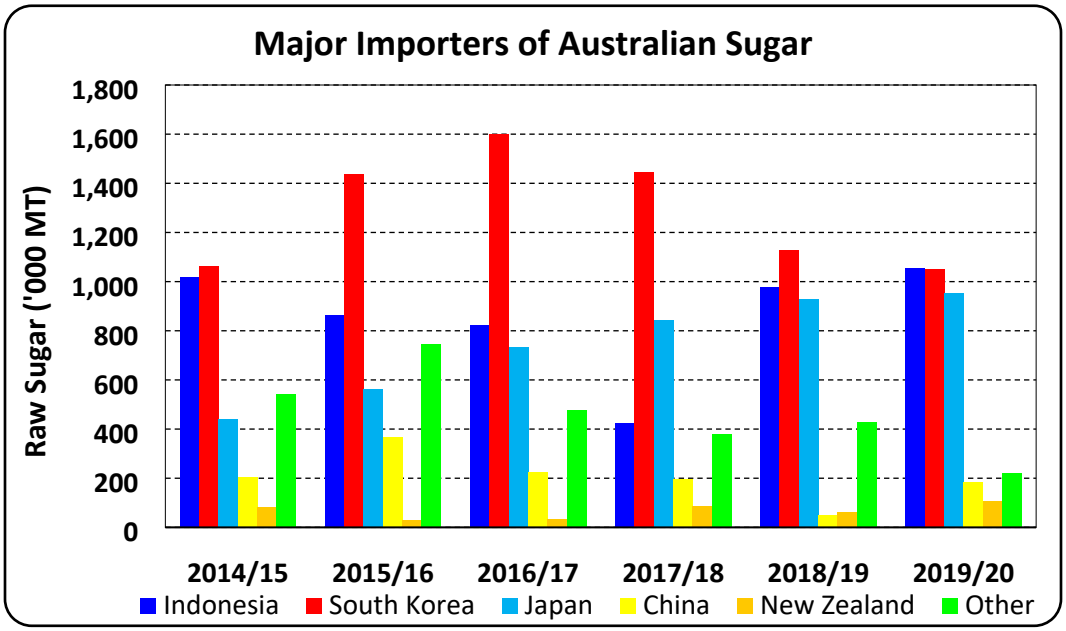
Consumption

Domestic sugar consumption for MY 2020/21 has been revised down to 0.85 MMT from the previously forecast 1.0 MMT. If realized this would be just slightly above the MY2019/20 estimate. The primary driver for lower consumption estimates is directly related to the impact of COVID-19 on the food service sector demand in Australia. In addition to lockdown restrictions impacting the first half of MY 2020/21, the international, state and territory border restrictions have had a major impact on tourism which has flowed through to impacts on the food service sector. There are indications that some state and territory border restrictions may be eased by December 2020, however indications are that any easing of international border restrictions is unlikely until well into 2021.

Trade

Raw sugar exports in MY 2020/21 are estimated to be 3.3 MMT, a downward revision of 100,000 MT from the previous forecast of 3.4 MMT. If realized, this would be 200,000 metric tons (MT) below the level of MY 2019/20. The decrease in raw sugar exports directly relates to the downward revision in sugar cane production caused by below-average rainfall and lower sugar content of the cane. In addition to the reduced sugar production estimate, other factors are impacting Australia's sugar exports. One reason is stronger competition from other exporting countries. This is in part due to COVID-19 reducing demand for gasoline which in turn has reduced ethanol demand and diverted some world sugar cane production back towards increased sugar production. COVID-19 impacts are also attributed to weaker global demand due to impacts on food service sectors around the world. The gradual and sustained strengthening of Australia's currency against the U.S. dollar since March 2020, from AU$1.72 to AU$1.38 in mid-September 2020, has also impacted on the competitiveness of Australian sugar on the world market.

Figure 5 – Top Five Country Imports of Australian Raw Sugar



Source: Trade Data Monitor (data as reported by importing countries)

Indonesia has become one of the largest importers of Australian raw sugar (see figure 5). South Korean imports of Australian raw sugar peaked in MY 2016/17 and have since declined gradually, whereas Indonesia bottomed out in MY 2017/18 and has since increased strongly. Japan has steadily increased imports of Australian raw sugar from zero in MY 2009/10 to now be in third place after Indonesia and South Korea. The top three importers now account for around 85 percent of total raw sugar imports from Australia.

The refined sugar export estimate for MY 2020/21 is similarly revised down to 100,000 MT, the same as MY 2019/20. Refined sugar is a small export market for Australia representing only around three percent of annual sugar exports. Of the refined sugar exports, approximately 85 percent has consistently been to Singapore over recent years.

Australia imports a relatively small quantity of refined sugar and the MY 2020/21 estimate has been revised down from 12,000 MT from the previously forecast 15,000 MT. Although representing merely one and a half percent of domestic consumption, the downward revision is attributed to the decline in food service sector demand in Australia.

Stocks

End of year stocks in Australia are typically low due to the close alignment of the sugar cane harvest season, starting in June, and the start of the marketing year in July. Stocks for MY 2020/21 are estimated to be in line with typical past levels.

Sugar, Centrifugal	2018/2019		2019/2020		2020/2021	
Market Year Begins	Jul 2018		Jul 2019		Jul 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	130	130	137	137	119	38
Beet Sugar Production (1000 MT)	0	0	0	0	0	0
Cane Sugar Production (1000 MT)	4725	4725	4285	4285	4500	4300
Total Sugar Production (1000 MT)	4725	4725	4285	4285	4500	4300
Raw Imports (1000 MT)	2	2	2	3	2	3
Refined Imp.(Raw Val) (1000 MT)	15	15	15	13	15	12
Total Imports (1000 MT)	17	17	17	16	17	15
Total Supply (1000 MT)	4872	4872	4439	4438	4636	4353
Raw Exports (1000 MT)	3600	3600	3200	3500	3400	3300
Refined Exp.(Raw Val) (1000 MT)	135	135	120	100	140	100
Total Exports (1000 MT)	3735	3735	3320	3600	3540	3400
Human Dom. Consumption (1000 MT)	1000	1000	1000	800	1000	850
Other Disappearance (1000 MT)	0	0	0	0	0	0
Total Use (1000 MT)	1000	1000	1000	800	1000	850
Ending Stocks (1000 MT)	137	137	119	38	96	103
Total Distribution (1000 MT)	4872	4872	4439	4438	4636	4353
(1000 MT)						

Attachments:

No Attachments